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Brazil

Tomatoes and Products

Annual Report

2007

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Report Highlights:

Post estimates Brazilian tomato production in CY 2007 at 3.35 MMT, a slight increase over the previous year's production of 3.15 MMT but not a recuperation of 2005 levels. Tomato area in Brazil has decreased every year for the past several years, and production continues its shift to the Center-West of the country, where improved yields adapted to the region allow production to grow. Both bad weather and whitefly have caused losses to Brazilian tomato farmers this year.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Brasilia [BR1]
[BR]

Economic Overview

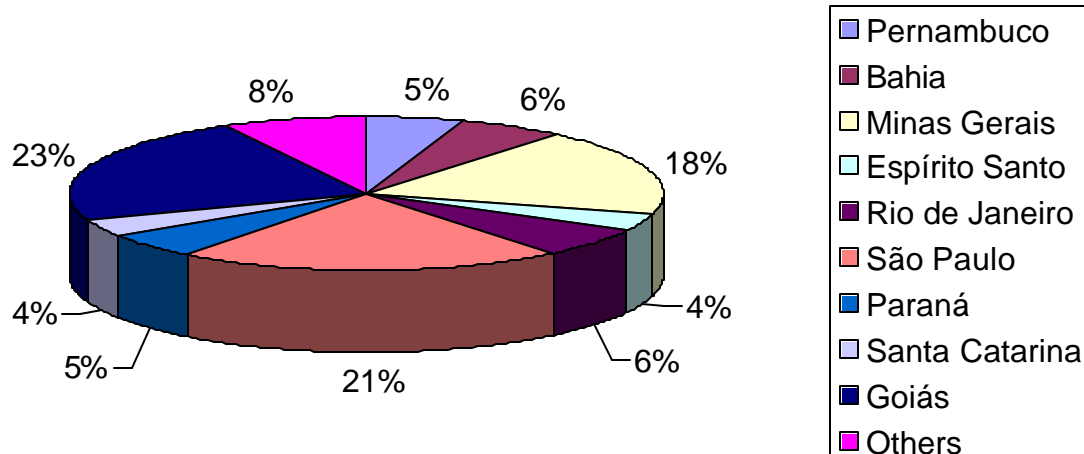
President Lula and his economic team have implemented orthodox fiscal and monetary policies and pursued many necessary reforms. Brazil's external accounts, aided by a stable international environment, have improved substantially over the last three years. GDP growth dropped to 2.9% in 2005 and 3.7% in 2006, down from a strong performance (5.7%) in 2004. Market expectations are for 4% growth in 2007. Brazil has experienced booming exports, healthy external accounts, inflation under control, decreasing unemployment and reductions in the debt-to-GDP ratio. Buoyed by exports and investment inflows, the Real has remained at relatively appreciated levels, allowing the government and businesses to pay down external debt, although many in agriculture and in industry complain the exchange rate is making Brazilian exports less competitive. The government pre-paid its IMF obligations, its last remaining rescheduled Paris Club obligations, and in April 2006 announced it had retired the last of its Brady bonds. This removes from the books all restructured debt associated with Brazil's late-1980's default. Based upon the improving external debt dynamics, Fitch IBCA upgraded its credit rating on Brazil's sovereign debt in February 2006, to BB (two notches below investment grade).

Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007*
GDP Growth (%)	4	1.5	1.9	0.5	4.9	2.3	3.7	4.4
Inflation (%) (IPCA/IBGE)	6	7.7	12.5	9.3	7.6	5.7	3.1	3.7
Average Exchange Rate (R\$/US\$)	1.83	2.35	2.93	3.07	2.93	2.44	2.18	1.98
Total Exports (US\$ billion)	55	58.2	60.4	73.1	96.5	118.3	137.5	148.4
Total Imports (US\$ billion)	55.7	55.5	47.2	48.3	62.8	73.5	91.4	110

*Projected

State Participation in Total Production



Brazilian Tomato Production by State in 2006

Region/State	Production (Tons)	Area Harvested (Hectares)
North	8,421	1,065
Amazonas	3,153	626
Roraima	5,268	439
Northeast	503,091	12,541
Maranhão	4,727	231
Ceará	102,851	2,024
Rio Grande do Norte	12,598	400
Paraíba	25,785	805
Pernambuco	160,949	4,018
Sergipe	4,620	280
Bahia	191,561	4,783
Southeast	1,538,366	23,796
Minas Gerais	521,696	7,838
Espírito Santo	133,277	1,993
Rio de Janeiro	211,063	2,805
São Paulo	672,300	11,340
South	334,135	7,153
Paraná	125,584	2,495
Santa Catarina	108,858	2,289
Rio Grande do Sul	99,693	2,369
Center-West	770,969	10,196
Mato Grosso do Sul	3,649	71
Mato Grosso	2,354	143
Goiás	747,130	9,710
Distrito Federal	17,836	272
Brazil	3,154,982	54,931

Source: IBGE

Average Yield of Brazilian Tomato Production (kg/ha): 1997-2006

2000	2001	2002	2003	2004	2005	2006
53.263	53.784	58.546	59.211	59.238	56.695	58.106

Source: IBGE

Since statistics distinguishing processing and table tomatoes do not exist in Brazil, Post relies on local government and industry sources to estimate the breakdown between fresh market and processing tomatoes that are produced in Brazil. Tomatoes can be grown in many regions of Brazil, and a favorable climate allows for production throughout the year in many areas, but the main season runs from June to September. Yields are highest in regions with milder winters and low chance for frost. Summer production poses greater risks for disease and fruit set problems, and is concentrated in higher elevations. The cost of production for tomatoes is very high, as it entails heavy use of labor and imported inputs, such as seeds, fertilizer and chemicals. Many input costs are U.S. dollar-based, so the appreciation of the Brazilian currency relative to the U.S. dollar (currently at 1.95 Reals to the dollar) has brought considerable relief, in spite of increasing production costs.

Boosts in yields are being achieved as a result of newer higher-yielding tomato varieties, coming in large part from Brazilian research entity Embrapa. At Embrapa, varieties have been developed that are more appropriate for growing in the Brazilian climate, and special attention has been given to the development of varieties for growing in the Center West of Brazil. Planted area is increasing rapidly in the Center-West region and production climbed from just 292,795 tons in 1996 to an estimated 770,000 tons in 2006. Yields in this area of Cerrado (Savannah) are the highest in the county at about 75 tons per hectare compared to 65 tons per hectare in the southeast region, which is the largest production region. Use of drip irrigation in the Center-West region is gaining popularity as it uses up to 20 percent less water and energy. Additionally, drip irrigation applies water to the base of the plant without wetting the leaves and thus cuts down on humidity thereby impeding the development of diseases and cutting fungicide costs. Though installation of drip irrigation costs double that of center-pivot, some producers report a financial return 25 to 30 percent greater than with conventional center pivot irrigation. Yields under drip irrigation are reported at 110 tons per hectare, which is 40 percent greater than under traditional irrigation. Drip systems are also in use in the few hothouse-grown tomatoes in Brazil.

A technical assistance program of Unilever called the Sustainable Agricultural Program has also helped to spur production in the Center-West. The project aims to increase participating farmers' profit margins as well as stimulate overall production, which would theoretically lower the company's tomato procurement costs. Unilever has also established a research farm in Goias in the Center-West which works to establish new tomato varieties, monitor diseases, and test irrigation systems.

Fresh Consumption

According to industry contacts, tomatoes for fresh consumption accounted for 65 percent of total Brazilian tomato production in 2006. The percentage of production for processing tomatoes increases every year, and grew 6% from 2005 to 2006.

The state of Goias became the leading producer in 2003 overtaking Sao Paulo. However, São Paulo continues to be the major consumer market for table tomatoes in Brazil and neighboring states are filling an increasing percentage of its market's demand.

Processing

Brazilian processed tomato production is projected to be 1.45 million metric tons (MMT) for 2007, up 240,000 tons from the previous year. New high-yielding hybrids and greater use of inputs and technology are boosting productivity of processing tomatoes, particularly in the Center-West region. Yields in this area are highest in the country at about 75 tons/ha compared to 65 tons/ha in the Southeast region.

Tomatoes are produced throughout Brazil, primarily for fresh consumption, but there are three regions within Brazil that are commercially important for processing tomatoes.

The first region encompasses the states of Bahia (BA) and Pernambuco (PE) in the Northeast region. Planting takes place here from March to May, harvesting from June to October. The second region includes the states of Goiás (GO) and Minas Gerais (MG) in the center of the country, which plants from March to June, and harvests from June to October. The third Region is located in the Center-South region and includes the state of São Paulo (SP). Its planting occurs in February and ends in June, with harvesting taking place between June and November. Based on official Brazilian statistics (IBGE), these three regions account for roughly 75 percent of all tomato production in Brazil, and virtually all the processing tomato production.

Tomato production declined in the first region has declined in the past 10 years due, in large part, to further expansion of more profitable fruit production (grapes, mangoes, bananas) in the region and continued disease and pest problems, particularly with the white fly. The increased cost of pesticides and other inputs to combat the problem elevated the production costs for industrial tomatoes.

Production of processing tomatoes in the Center-South Region is expected to continue gradually declining over the long-term due to competition for area by other crops, urban encroachment, and subsequent increases in land values. Disease and pests are also a problem in this area and the cost of keeping these under control reduces the cost incentive to continue to grow processing tomatoes.

Tomato producers and the processing industry continue to migrate to the Center-West, particularly to the state of Goiás due to financial incentives and favorable growing conditions. Financial incentives include lower taxes and easier access to long-term financing with low interest rates. Furthermore, farmers are enticed by lower fixed production costs in the form of cheaper land prices.

Production Processing Breakdown

It is the estimation of industry contacts that 40 percent of domestic production of processing tomatoes goes into extracts, which are more concentrated than paste and often used for marinating meats. Thirty percent goes into tomato sauces and purees, 15 percent goes into paste, and 14 percent into ketchup. However, since no official data on tomato products exists in Brazil and there is not a good match between terms used in Brazil and those used in the United States, it is difficult to estimate production numbers for processed tomato products.

Tomato Paste

Brazilian production of tomato paste is estimated at 147,000 tons in CY 2006, and forecast to increase to 147,750 in CY 2007. Due to the strengthening national currency, the Brazilian product is experiencing decreasing competitiveness in the international market and in

particular, Argentina and Paraguay. The majority of the paste is used in further processing for consumer-ready sauces and other such products. More availability of Brazilian canned tomato products has decreased imports from countries such as Chile, Italy, Turkey and China.

Demographic Trends and Tomato Product Consumption

There has been a fundamental shift in consumer preference toward ready-to-eat foods in Brazil. This, in turn, has led to increased consumption of prepared tomato-based products such as "ethnic" sauces for cooking meats, pasta, and ketchup. In addition to increased purchasing power, Brazilians have less time to go shopping for fresh produce, more women are part of the work force, fewer people have time to go home for lunch and are instead eating fast food for lunch, fewer people have full-time maids to do the cooking, and urbanization is increasing. In addition, increasing consumption of fast food (pizzas, hot-dogs, hamburgers) has also increased demand for tomato products. Popularity of gourmet tomato products, such as sun-dried tomatoes, continues to rise in Brazil.

The recent changes in Brazilian consumer habits and lifestyles are expected to continue to drive consumption trends in Brazil over the long term. Although short-term economic factors have slowed growth in consumption of tomato-based products, consumption is recovering and growing at a healthy pace with economic recovery.

Fresh Tomato Consumption

Per capita tomato consumption is fairly low in Brazil, particularly for fresh tomatoes. According to Ceagesp (A Sao Paulo-based Agricultural Institute), Brazilian per capita tomato consumption is 6.3 kilos per year, while per capita consumption in Norway, Greece, Switzerland, and other countries exceeds 40 kilos per year. Brazilian fresh tomato consumption should increase with economic growth, improvement in varieties, and quality control.

Trade

Historically, the majority of Brazilian imports of tomato products have been in the form of tomato paste (imported paste is 28-32 Brix), which is used to supplement domestic production and is further processed in Brazil into consumer-ready sauces and other similar products. Most Brazilian imports of tomato paste, when they occur, enter the country during the first half of each calendar year after the Brazilian harvest has already been processed and subsequently used in the production of finished products (harvesting in Brazil ends in October/November).

0702.00 Tomatoes, Fresh or Refrigerated						
Brazil Imports (1000 tons)						
January – December						
Country	Quantity	Value	Quantity	Value	Quantity	Value
	Tons	US \$	Tons	US \$	Tons	US \$
	2004		2005		2006	
World	223	68,000	41	17,850	23	9,740
Uruguay	200	55,000	41	17,850	23	9,740
Chile	23	12,900	0	0	0	0
United States	0	0	0	356	0	0

210320 Tomato Ketchup and Other Tomato Sauces				
Brazil Imports – 1000 Tons				
January – December				
	2003	2004	2005	2006
World	175	563	941	1230
Italy	133	303	379	454
United States	34	157	290	325
Chile	0	93	170	207
Argentina	0	6	53	26
Colombia	0	3	21	30
Venezuela	0	0	11	140
Greece	0	0	8	0
Germany	7	0	8	1
Others	1	1	1	47

Source: Ministry of Development, Industry, and Commerce

2002.90 Tomato Paste						
Brazil Imports- 1000 tons						
January – December						
Country	Quantity	Value*	Quantity	Value*	Quantity	Value*
	Tons	US \$	Tons	US \$	Tons	US \$
	2004		2005		2006	
World	3	1800	8	4293	3	1866
Chile	1.4	1000	3.7	2052	1	767
China	1	498	.4	1780	0	20
Italy	.2	174	.6	330	2	1040
Argentina	.2	107	.2	128	.2	14

Source: Ministry of Development, Industry, and Commerce
*thousands of US\$

2002.90 Tomato Paste						
Brazil Exports – 1000 tons						
January – December						
Country	Quantity	Value*	Quantity	Value*	Quantity	Value*
	Tons	US \$	Tons	US \$	Tons	US \$
	2004		2005		2006	
World	14	8668	9	6495	6	5336
Argentina	4	2019	3	1723	2	1205
Paraguay	5	3565	3	3344	3	3214
Uruguay	1	648	.5	378	.3	320
Angola	.1	106	.4	354	.1	126
Bolivia	3	267	.4	350	.3	348

Source: Ministry of Development, Industry, and Commerce
*thousands of US\$

0702.00 Tomatoes, Fresh or Refrigerated						
Brazil Exports – 1000 tons						
January - December						
Country	Quantity	Value	Quantity	Value	Quantity	Value
	Tons	US \$	Tons	US \$	Tons	US \$
	2004		2005		2006	
World	890	101,572	476	135,107	0	0
Argentina	265	64,508	380	83,504	0	0
Paraguay	623	35,521	0	0	0	0
Italy	0	0	58	45,455	0	0
Uruguay	0	0	38	5,733	0	0
Others	2	1,543	0	415	0	0

Source: Ministry of Development, Industry, and Commerce

In the past, the vast majority of Brazilian imports of tomato products have come from Chile, which is the largest and most efficient producer in the region. Imports of most tomato products dropped considerably in 1999 because the January 1999 devaluation of the Brazilian currency increased the cost of imported products. Conversely, Brazilian exports of fresh tomatoes, primarily to neighboring countries, increased in 1999 as the devaluation made Brazilian products more competitive but have since dropped considerably as the Real has gained strength.

Brazil's fresh tomato imports, which were primarily sourced from other South American nations, have dropped considerably in recent years. The Netherlands is currently the largest

source of Brazil's fresh tomato imports. The vast majority of Brazil's fresh tomato exports are destined to MERCOSUL nations. African nations, particularly former Portuguese colonies, occasionally import small quantities of fresh Brazilian tomatoes.

The United States was the leading supplier to Brazil of ketchup and other tomato sauces. However, U.S. ketchup exports have dropped considerably since 1998 and domestic production of ketchup has increased and replaced imports.

Tariffs

Brazil is a member of MERCOSUL, which is comprised of Brazil, Argentina, Uruguay, and Paraguay. Countries within MERCOSUL enjoy duty-free access for most agricultural products traded within the trading bloc, while a Common External Tariff (CET) is applied for non-MERCOSUL countries. The CET puts U.S. agricultural products at a competitive disadvantage. The MERCOSUL's Common External Tariff (CET) was lowered one percent in January 2002.

As of February 2005, Brazil's applied Common External Tariff (CET) rates for non-MERCOSUL trading partners for selected tomato products are:

HS code	Tariff
0702.00	10 percent
2002.10	14 percent
2002.90	14 percent
2103.20.10	18 percent
2103.20.90	16 percent

U.S. agricultural products also face a Merchant Marine Tax, which is a 25-percent surcharge on the value of the freight for imports of all products (Note: this measure has been waived for imports to the North/Northeast regions of Brazil in order to stimulate development in the region).

Brazil's tariff rates for MERCOSUL partners including Argentina, Uruguay, and Paraguay is zero for fresh tomatoes and all processed products.

Chile and Bolivia are associate members of MERCOSUL and receive preferential reductions of 60% of the duty from the CET.

Since May 1, 2005, all import transactions of goods and services are subject to a PIS/COFINS social tax of 9.5 percent. There are some exceptions, but most of the agricultural and food product imports are subject to the 9.5 percent tax, which represents the sum of two social taxes: PIS/PASED (1.65%) + COFINS (7.60%). The PIS/COFINS tax was approved through Law 10,865.

HS Code	PIS/COFINS (%)
0702.00	0
2002.10.10	9.25
2002.10.90	9.25
2103.20.10	9.25
2103.20.90	9.25

Other

Loss Rates

Product loss for tomatoes in Brazil is falling due to the adoption of long life and more transport resistant varieties. Loss rates have dropped from more than 40 percent to an estimated 20 percent, according to industry contacts. Improper handling continues to be the main reason for losses. The common forms for packing and packaging are the predominate causes for product damage. Tomatoes are generally packed in wooden "K boxes," which are often infested with harmful bacteria and mold and are easily contaminated. Furthermore, the tomatoes on the bottom of the crates are crushed, thereby accelerating the rotting of the fruit.

Industry Terms and Standards

Terms for the different classes of products are used differently in Brazil than they are in the United States and this could cause some confusion. In both the United States and Brazil, paste is considered to be a product that has 28-32 Brix; generally 31 in Brazil.

Brazil also has a class of products that are called "extratos" or extracts. Extratos have 21 Brix and can be considered a "semi-concentrated" product. Puree would probably be the most similar product in the United States. The difficulty is that paste and extratos are considered one class of products by the industry and trade and it is difficult to make a distinction between the two in the case of Brazil. In general, it can be assumed that imported paste is 28-32 Brix but domestic production will include products that are 28-32 Brix and products that are 21 Brix.

To further confuse the issue, Brazil also has a class of products termed "puree," which has 12 Brix and is analogous to tomato sauce in the United States. Finally, there are sauces that also have 12 Brix but have other ingredients or flavorings in them and are more consumer-ready than the other classes of products.

Salad Tomato Prices (Ceagesp - São Paulo) cents per kg in Brazilian Reals*													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2001	64	58	66	79	73	51	54	52	51	48	49	62	82
2002	54	62	64	79	59	71	74	63	82	80	79	58	85
2003	65	89	163	134	85	64	56	54	58	76	70	98	84
2004	100	78	86	91	134	164	151	172	152	103	81	79	116
2005	86	108	127	138	150	123	128	107	113	118	168	123	126
2006	91	91	106	179	127	86	87						
Prices refer to tomatoes commercialized at CAEGESP in Sao Paulo only. Source: Agrianual 2007 *Average Exchange Rate in 2007 approx. RS 2.00=US\$ 1.00													

Santa Cruz Tomato Prices (Ceasa - Minas Gerais) cents per kg in Brazilian Reals*													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2001	39	34	31	43	47	32	34	27	17	17	n/a	n/a	82
2002	n/a	37	36	46	33	43	44	31	50	37	53	27	85
2003	38	57	85	74	57	28	27	22	25	33	37	43	84
2004	62	49	44	37	66	96	125	113	105	79	47	49	116
2005	45	57	48	54	79	59	59	48	52	49	97	57	59
2006	50	42	44	73	57	35	30						

Prices refer to tomatoes commercialized at CEASA in Belo Horizonte/MG only.
Source: Agrianual 2007
*Average Exchange Rate in 2006 approx. RS 2.2=US\$ 1.00

PS&D Tables

PSD Table Country: Brazil Commodity Fresh Tomatoes (HA)(MT)										
	2004			2005			2006			UO M
	USDA Official	Revised Post Estimate	Post Estimate New	USDA Official	Revised Post Estimate	Post Estimate New	USDA Official	Revised Post Estimate	Post Estimate New	
Market Year Begin			01/2005			01/2006			01/2007	
Plant For Fresh Consump	0	42500	43736	0	42500	40000	0	0	40500	(HA)
Plnt For Processing	0	15550	16168	0	16000	15000	0	0	15800	(HA)
TOTAL Area Planted	0	58050	59286	0	58500	55000	0	0	56300	(HA)
Harv. For Fresh Cons.	0	42550	42990	0	42450	39951	0	0	40500	(HA)
Harv. For Processing	0	15550	16296	0	15975	14990	0	0	15800	(HA)
TOTAL Area Harvested	0	58100	59286	0	58425	54931	0	0	56300	(HA)
Fresh Sale Production	0	2000000	2026617	0	2040700	1900000	0	0	1900000	(MT)
Processing Production	0	1450000	1476615	0	1270000	1250000	0	0	1450000	(MT)
TOTAL Production	0	3450000	3396767	0	3310700	3155000	0	0	3350000	(MT)
TOTAL SUPPLY	0	3450000	3396767	0	3310700	3155000	0	0	3350000	(MT)

PSD Table Country Brazil Commodity Tomato Paste,28-30% TSS Basis (MT)(MT, Net Weight)									
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Delivered To Processors	0	0	0	0	0	0	0	0	0
Beginning Stocks	12114	9990	9000	11514	9390	5204	0	0	8204
Production	147000	147000	147000	149000	149000	149000	0	0	146500
Imports	8400	8400	2905	8500	8500	9000	0	0	10000
TOTAL SUPPLY	167514	165390	158905	169014	166890	163204	0	0	164704
Exports	7000	7000	5701	7500	7500	7000	0	0	6000
Domestic Consumption	149000	149000	148000	149000	149000	148000	0	0	149000
Ending Stocks	11514	9390	5204	12514	10390	8204	0	0	9704
TOTAL DISTRIBUTION	167514	165390	158905	169014	166890	163204	0	0	164704